

STATE OF WASHINGTON



**OFFICE OF
INSURANCE COMMISSIONER**

REPORT OF

TARGET MARKET CONDUCT

EXAMINATION

OF

AMERICAN NATIONAL INSURANCE

COMPANY

GALVESTON, TEXAS

BY

**THE OFFICE OF THE INSURANCE
COMMISSIONER
STATE OF WASHINGTON**

AS OF

DECEMBER 31, 1996

December 20, 1999

Honorable Deborah Senn
Insurance Commissioner
Olympia, Washington 98504

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the provisions of RCW 48.03.010 et seq. and procedures promulgated by the National Association of Insurance Commissioners and the Office of Insurance Commissioner (OIC), an examination of the market conduct activities has been conducted of:

American National Insurance Company

One Moody Plaza

Galveston, Texas 77550-7999

The report thereon, as of December 1996, is herein respectfully submitted.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with the Office of the Insurance Commissioner and the National Association of Insurance Commissioners market conduct examination procedures.

James R. Montgomery III, AIE, FLMI, MAAA, Robbie Kriplean, AIE, AIRC, and Charles F. Taylor, CIE, FLMI, AIRC (Examiner-in-Charge) participated in this examination.

I certify that the foregoing is the report of the examination, that I reviewed this report in conjunction with pertinent examination work papers, that this report is in accordance with the provisions for such reports prescribed by the Office of the Insurance Commissioner, and this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

FOREWORD

This target market conduct examination report is by exception and additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were indicated.

Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to the Washington Administrative Code.

SCOPE

SITUS

This examination was a Level Two Target Market Conduct Examination conducted primarily off-site with a visit to the company's home office in Galveston, Texas and its administrative offices in Petaluma, California.

TIME FRAME

The examination covered the company's operations for the period January 1, 1992 through December 31, 1996.

METHODOLOGY

Sampling Standards

In general the sample for each test utilized in this examination falls within the following guidelines:

92% Confidence Level

+/- 5% Tolerance

Regulatory Standards

Samples are tested for compliance with standards. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as

"met." The standard in the area of agent licensing and appointment will not be met if any violations are noted. This will also apply when all records are examined, in lieu of a sample. For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes.

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MATTERS EXAMINED

The focus of the examination was the life insurance and annuity business, which encompassed the following areas of operations:

Marketing and sales practices Agent activity

Complaints Replacement activity

HISTORY, TERRITORY OF OPERATIONS, MANAGEMENT

American National Insurance Company ("ANICO") was incorporated on March 17, 1905 under the laws of Texas and commenced business in the same month. It is a stock life insurance company with approximately 61% of the stock controlled by Moody Investments of Galveston through the Moody Foundation and Libbie S. Moody Trust. The company was admitted to transact business in Washington on April 15, 1927 and is licensed in the District of Columbia, American Samoa, Guam, Puerto Rico, Western Europe and all states except New York.

ANICO is governed by a board of directors comprised of the following members:

| | |
|----------------------------|------------------------|
| Robert Lee Moody, Chairman | Frances Anne Moody |
| Irwin Max Herz, Jr. | Russell Shearn Moody |
| Robert Eugene Lucas | William Lewis Moody IV |
| Harold Clyde MacDonald | Joe Max Taylor |
| Erle Douglas McLeod | |

MARKETING & SALES

-

LEGACY MARKETING GROUP

MARKETING ADMINISTRATION

As of the date of this report over 70% of ANICO's business in the state of Washington (as measured by premium volume) was marketed through the Legacy Marketing Group ("LMG") based in Petaluma, California. This affiliation with LMG began on June 1, 1993 when LMG and ANICO simultaneously entered into two contracts, a marketing agreement pursuant to which certain proprietary products were to be marketed exclusively by LMG and an insurance processing agreement under which LMG was to perform certain accounting and other administrative functions.

UNLAWFUL INDUCEMENTS, REBATES AND UNFAIR DISCRIMINATION

As an inducement for persons to purchase deferred annuity certificates some (but not all) prospects were offered premium "bonuses" in varying amounts ranging from 1% to 10% of the actual premium paid for the policy. In actuality the bonuses were mostly illusory since they were subtracted from the cash value upon surrender, in some cases up to 20 years from the date of issue. Although the bonus would not be forfeited if the annuity were annuitized, most never are. The offering of the bonuses was discretionary with the agent and the commissions were offset by amounts proportional to the percentage of bonus allowed. Thus, the smaller the bonus which a producer offered, the larger his or her commission. Such practice is in violation of RCW 48.18.480 which prohibits any unfair discrimination between insureds in the terms or conditions of any insurance contract, or in the rate or amount of premium charged, or in the benefits payable or in any other rights or privileges accruing thereunder.

The practice is also in violation of RCW 48.30.140 which prohibits any rebate or other valuable consideration or inducement whatsoever except to the extent provided in any applicable filing with the commissioner.

This practice became the subject of a nationwide civil class action law suit against both ANICO and LMG as described later in this section.

The OIC received a consumer inquiry in early 1994 (the bonus annuities had been sold in Washington since September 15, 1993). OIC discussed the bonus annuities with ANICO and in a letter dated March 8, 1994 ANICO's Senior Vice President informed the commissioner's investigator that ANICO would cease selling annuities with the premium bonus in Washington.

In early 1995, OIC learned through another consumer inquiry that ANICO had continued the sale of bonus annuities contrary to the Senior Vice President's commitment. ANICO

explained their action as a miscommunication between the home office in Galveston and LMG. Since LMG had authority pursuant to the June 1, 1993 processing agreement to issue annuity certificates in ANICO's name they had continued to do so without interruption. LMG operates as ANICO's administrative office from their own offices in California.

Subsequent Event: The Company has agreed to expand their audits of LMG to ensure these products are not sold.

On December 20, 1996, a nationwide class action lawsuit, Buddie Watson King and Fayrene R. Zink v. American National Insurance Company and Legacy Marketing Group, Inc., was filed in the circuit court of Jefferson County, Alabama. Final order and judgement of the court on August 13, 1998 settled this case, which sought recovery for damages due to unfairly discriminatory practices in the sale of the bonus annuities. American National did not admit to a violation of any law or regulation of any state in settling this lawsuit.

Under the terms of the settlement there were two different benefits. One benefit was for individuals who did not receive the maximum premium bonus available on their annuity, and, who still had the annuity in force. Persons in that category were entitled to have credited to their annuity an amount equal to 50% of the difference between the premium bonus amount they originally received and the maximum bonus available on the annuity they purchased less 26% of that amount for attorney's fees. The vesting of the extra premium bonus was in accordance with the terms and conditions of the annuity. Those who purchased bonus annuities but did not receive the maximum bonus available and terminated the annuity for any reason other than death were entitled to receive a check for \$100 less 26% for attorney fees and expenses. There were 518 Washington annuitants affected by the court decision resulting in a total of \$180,220.26 being credited as additional bonuses and a total of \$3,774.00 cash payments being paid to Washington class members with terminated annuities.

GROUP MARKETING

(INCA)

The bonus annuities were marketed as certificates under a group master policy issued to a trust in the state of Illinois. ANICO established the trust and purported to represent the "settlers" (participants), one of which was the Insurance Coalition of America (INCA), Petaluma, California. INCA later changed its name to InterNational Consumers Alliance.

As a prerequisite to purchasing an annuity, applicants were required to join INCA. Originally applicants were required to pay dues on an annual basis, however, since this left annuitants the option of not paying dues after the first year, ANICO decided to require applicants to sign a form authorizing ANICO to deduct membership dues from the cash value of the contract on a monthly basis for the life of the contract and transferring such monies to INCA, thereby locking annuitants into paying INCA dues for the entire duration of the contract rather than affording them the option of dropping their membership after the first year. Subsequently, ANICO reverted back to the original procedure of having the dues paid separately on an annual basis.

This method of marketing presents a number of problems as discussed below and is not in the best interest of Washington consumers. This method was apparently selected by LMG and ANICO because of their alleged misinterpretation of Washington insurance laws leading them to the erroneous conclusion that they could offer the bonus annuities in Washington by means of certificates issued pursuant to the Illinois master policy without having to file the certificates for review by the OIC as would have been required if individual policies had been issued.

This group approach involved an apparent conflict of interest due to the fact that INCA is represented in the trust by ANICO. Thus, INCA is not the typical group association, which represents and is controlled by its members. This is simply a group master contract, which ANICO, in effect issued to itself (or its representatives).

Another problem with this group approach is that under the terms of the master policy, the group policyholder is granted the right to terminate the group policy at any time by giving 60 days notice to ANICO. This could create problems for certificate holders. On the other hand the group policyholder plays no role in the system other than simply holding the master policy. It is likely that certificate holders have never even heard of the trust since there is no mention of it in their certificates.

The examiners note that certain other states do not permit ANICO to market their annuities in this "group" manner and it is recommended that the Commissioner consider imposing the same restriction on ANICO in Washington. Since the certificates are actually written as freestanding contracts the examiners recommend that they be redrafted and filed as individual policies. This would eliminate the confusing legal relationship between the trustee, INCA and the individual annuitants, as well as freeing the consumers from being locked into paying dues to belong to INCA with services of questionable value.

SURRENDER CHARGES UPON DEATH OF VERY ELDERLY PERSONS

Many of the annuity certificates issued through LMG impose the same surrender charges against lump sum settlements when an annuitant dies as they do upon a regular cash surrender. In many cases the surrender charges begin at 10% for surrender during the first contract year declining by 1% each year down to 1% in the tenth year.

The examiners observed cases where persons in their nineties were issued deferred annuities with surrender charges as described above. Persons at such advanced ages having life expectancies of only a few years are most likely to die and incur a large surrender charge against single sum death proceeds. ANICO and LMG are cognizant of this likelihood as evidenced by the fact that they require applicants over the age of eighty (80) to sign a statement acknowledging their awareness of these charges.

MULTIPLE COMPANY MARKETING AND PROCESSING

ANICO is not the only company for which LMG markets and administers business. During the period of this examination LMG was also contracted with Allianz and IL Annuity and Insurance Company, and recently contracted with Transamerica to provide similar services.

A situation such as this where LMG both markets and administers business for competing carriers provides a unique opportunity for LMG to replace one of their contracted company's business with that of another. It could be very profitable (at least in the short term) for LMG to do so since it receives a processing fee for issuing a new policy as well as another fee for processing a surrender. Thus, a replacement would involve two additional processing fees and another new commission for LMG and its producers. In view of this unique relationship, the examiners conducted a review of replacements by ANICO of the other LMG contracted companies' business during the examination period. The review did not reveal any pattern of excessive replacement activity by ANICO.

AGENT LICENSING

AGENTS CONTRACTED THROUGH LMG

The marketing agreement between ANICO and LMG contains the following language, "at all times during the terms of the agreement, LMG and all general agents and agents shall be properly licensed with each state or jurisdiction and properly appointed with American National.....".

The examiners conducted tests to determine whether all levels of producers were properly licensed and appointed. Such tests revealed that, out of a population of 1349 policies, producers who were not properly licensed or appointed had written thirty-nine (39).

(See Appendix I)

NON-LMG CONTRACTED AGENTS

A review of 100 sample policy files revealed no licensing violations.

AGENT LICENSING RECORDS

The examiners requested a listing of all ANICO's agents appointed in Washington (1992 - 1996) for comparison to state records. The comparison review revealed the following:

Home Service Agents

Eleven (11) agents appeared on the 'Appointed' listing the company provided and as terminated or canceled on the OIC list. In response to the noted discrepancy, ANICO provided copies of Notice of Termination for the eleven (11) agents. ANICO's records should be reconciled to reflect proper status.

Legacy Agents

Twenty-five (25) agents appeared on the 'Appointed' listing the company provided and as terminated or canceled on the OIC list. The examiners requested copies of the "Notice of Termination" to verify the agent's status. ANICO's response was as follows:

"Legacy Marketing Group has no record of the attached agents (with the exception of K. Glasgow) being terminated. At the time that these agents were terminated, Legacy was not being forwarded the appointment renewals by the Home Office in Galveston so they could compare their records to the state's and to research any discrepancies. This process actually started the end of 1995 and the majority of the agents reflected as being terminated are for 1994."

Subsequent Event: The Company states that Home Office management changes in 1995 have resulted in improved communications with LMG regarding agent licenses and appointments. They also note improved employee training programs have been implemented at LMG regarding proper license and appointment procedures.

ANICO Agents

Sixteen (16) agents appeared on the Appointed listing the company provided, for which there was no record of the agent on the OIC list. In response to the noted discrepancy ANICO stated the agents were listed in error.

Subsequent Event: The Company advised OIC that appointment record reviews at LMG and the Home Office have been initiated to reconcile company, LMG and states' appointment records. As discrepancies are identified, corrective action is being taken.

Standard # 16 Agents representing the company have been appointed prior to soliciting applications on behalf of the company.

Results: The company did not meet this standard. Violations cited above are outside the tolerance level of 0% for agent licensing and appointments.

COMPLAINTS

The examiners reviewed all of the complaints received by ANICO during the period 1-1-93 through 12-31-96. The total number of complaints by year were as follows:

| 1993 | 1994 | 1995 | 1996 |
|------|------|------|------|
| 13 | 10 | 11 | 16 |

ANICO failed to include one complaint in their complaint register, which was recorded in the Office of the Insurance Commissioner. The complaint involved LMG annuity certificate LAN 0011489, and pertained to the requirement that persons purchasing annuity certificates are required to join the Insurance Coalition of America (INCA) before they are eligible to purchase annuities. This topic is discussed in this report on page 5 under Legacy Marketing Group.

Of the sixteen (16) complaints received in 1996, eight (8) were miscellaneous ones concerning certificates issued through LMG and of those eight (8), three (3) pertained to objections regarding the surrender charges.

(See Appendix II)

REPLACEMENTS

ANICO did not maintain a replacement register as specified by WAC 284-23-455(3), nor did the company comply with other requirements of the Washington Life Insurance Replacement Regulations WAC 284-23-400 through WAC 284-30-499, for the period 1992 through 1996.

Subsequent Event: According to a company official, in preparation for ANICO's effort to join the Insurance Marketplace Standards Association (IMSA), new replacement procedures were established in January 1998. Additionally, they provided copies of LMG replacement procedures dated August 8, 1999, detailing Washington replacement procedure requirements.

Standard # 11 Replacement procedures are in writing and are consistent with the Washington Replacement Regulations.

Results: The company did not meet this standard during the period examined.

WAC 284-23-485 requires that an agent replacing an existing life insurance policy or annuity present to the applicant, not later than at the time of taking the application, a completed notice regarding replacement in a form prescribed in the regulation.

NON LMG BUSINESS

A review of 100 sample policy files (other than those issued through LMG) revealed one (1) exception in that the required "Important Notice Regarding Replacement of Insurance " was not completed, in violation of WAC 284-23-440, WAC 284-23-455 and WAC 284-23-485.

(See Appendix III)

LMG BUSINESS

A review of fifty-six (56) deferred annuity files revealed that twenty- four (24) annuity certificates had been written to replace annuity or life insurance policies written through other life insurance companies. There were two (2) additional cases where the files did not contain sufficient information from which to determine whether or not they were replacements. Eighteen (18) of the twenty-four (24) or 75% of the known replacements involved some problem with the replacement forms. Of these eighteen (18) problem cases eight (8) contained misleading statements involving "bonus" annuities, which are described below. Nine (9) other forms were misleading due to the omission of material information and one (1) file did not contain a replacement form.

(See Appendix IV)

A replacement form, which either contains misleading information or omits material information, defeats the purpose for which the replacement regulation was intended.

Such misleading forms can be even more harmful when misused than failure to furnish a replacement form at all. The practice of inducing or tending to induce any insured to surrender or convert their insurance by means of misrepresentations or misleading comparisons is known as "twisting" and is barred by RCW 48.30.180.

It is particularly noteworthy that the eight (8) forms containing misleading statements further exacerbated the replacement problem caused by the "bonuses" which constituted unlawful inducements and illegal rebates offered as inducements to replace existing policies as discussed in this report on page 3.

WAC 284-23-455(2)(b) requires each insurer that uses an agent or broker, in the case of a replacement, to send to each existing insurer a written communication advising of the replacement, a copy of the replacement notice and a contract summary or ledger statement containing policy data on the proposed life or annuity as specified in the regulation.

In order to verify compliance with WAC 284-23-455(2)(b), the examiners reviewed the files pertaining to the twenty-four (24) replacements contained in the sample of fifty-six (56) annuities referred to above. From this review it was determined that three (3) of the twenty-four (24) files contained no evidence that either a copy of the replacement notice, contract summary or ledger statement had been sent to the existing companies as required (6 violations). Of the remaining twenty-one (21) replacement files, eighteen (18) contained no evidence that a contract summary or ledger statement had been sent to the existing company. Thus, there were a total of twenty-four (24) violations of WAC 284-23-455(2)(b).

See Appendix V

WAC 284-23-455(2)(c) requires each existing insurer that undertakes a conservation to furnish the policyowner with a contract summary or ledger statement for the existing policy in the format and within the time frame specified therein.

The examiners reviewed the original fifty-six (56) samples of annuity files and observed that ten (10) ANICO annuities had been replaced by annuities of other companies. Out of the ten (10) replacements, seven (7) had been replaced by annuities written in IL Annuity and Insurance Company which is also under contract with LMG for marketing and administration services.

In all ten (10) of the replacement cases the files contained a conservation letter to the insured, which provided very basic information. However, there was no evidence in any of the files to indicate that the required contract summary or ledger statement in the required format was furnished to the certificate holders. This review, therefore, revealed ten (10) violations of WAC 284-23-455(2)(c).

See Appendix VI

Subsequent Event: The Company has agreed to work with LMG to improve their overall conservation program in the future.

AFTERWORD

Although most of this examination was performed off-site, the examiners felt that a brief visit to ANICO's home office in Galveston, Texas and its administrative office in Petaluma, California (the office of LMG which administers that portion of ANICO's business which LMG markets) would be beneficial. The primary purpose of the visit was to determine whether some of ANICO's practices and/or practices of LMG on ANICO's behalf, discussed in this report, had changed materially subsequent to the examination period.

One aspect of the ANICO/LMG relationship which continued to concern the examiners was the opportunity afforded to LMG to profit from replacing the business of one of the companies to which it is contracted with that of another. (See the section of this report entitled "Legacy Marketing Group-Multiple Company Marketing and Processing" page 7.)

During the visit to LMG the examiner discussed this issue at length with LMG's director of compliance. The examiner was informed that, while LMG does not prohibit such replacements by its producers between companies it is contracted with, neither does it encourage it and to some extent discourages the practice by withholding convention credit on such sales and disallowing credit toward their agent stock option purchase program.

ANICO began auditing LMG on a quarterly basis with a visit on November 16-18, 1993, (Report dated 1-7-94). It recently changed from quarterly to three times per year and receives regular reports from LMG as to which of its policies were replaced and an identification of the companies to which the business was transferred. It is LMG's position that a replacement is not necessarily harmful to an annuitant or insured and could be in their best interest depending upon the circumstances of each individual case.

LMG's director of compliance briefed the examiner on its total operations and emphasized their use of different personnel to handle each of the contracted companies business so as to insulate each company's operations to the extent possible.

A related area of concern to the examiners was the inaccurate information contained in some of the replacement forms during the examination period as previously discussed in this report. In response to the examiner's inquiry, the director of compliance stated that LMG now holds training classes designed to train producers in the proper completion of replacement forms and that employees who process new business now conduct a thorough review of the replacement forms for accuracy and completeness.

INSTRUCTIONS

1. ANICO discontinued issuing the premium "bonus" annuities during 1995. The company is instructed to regularly audit marketing administrators to ensure such products are not sold under their name in the future. The laws that were violated are listed in the "Summary of Violations". (Page 3 and 4)
2. ANICO is instructed to take the necessary steps to insure that agents are properly licensed and appointed prior to soliciting business on behalf of ANICO, in accordance with RCW 48.17 (Page 8)
3. ANICO is instructed to establish and monitor procedures to insure that all provisions of the replacement regulations (WAC 284-23-400 through WAC 284-30-499) are complied with and that misrepresentations and inaccuracies are not contained in the replacement forms. (Page 11 & 12)

RECOMMENDATIONS

1. The examiners recommend that ANICO consider revisions to deferred annuities so as to remove any surrender charges for death occurring beyond the annuitants normal life expectancy as measured from their age at the date of issue. Without such an amendment most annuitants at advanced ages would incur surrender charges due to death occurring during the period in which surrender charges apply. (Page 7)
2. It is recommended that ANICO reconcile its agents licensing records with those of the OIC. (Page 9)
3. The examiners recommend that ANICO require LMG to send the conservation materials to policyowners, as required in WAC 284-23-455(2)(c), via registered mail to remove any questions of conflict of interest by the administrator representing competitors in the life and annuity market. (Page 12)

SUMMARY OF VIOLATIONS

-

PAGE NUMBER NATURE OF VIOLATION **CITATION**

| | | |
|-------|-----------------------|---------------|
| P 3-4 | ("Bonus" annuities) | RCW 48.18.480 |
| | Unfair discrimination | RCW 48.30.140 |
| | RCW 48.18.480 | RCW 48.30.150 |

| | | |
|-----------|--|--------------------------------|
| | Rebates RCW 48.30.140 Special returns RCW 48.30.150 | |
| P 8 | Doing business through unlicensed agents | RCW 48.05.140 |
| P 11 | Failure to maintain replacement register | WAC 284-23-455(3) |
| P 11 | Failure to furnish insured with replacement forms | WAC 284-23-440 |
| P 11 & 12 | (Replacement forms) Twisting Misrepresentation | RCW 48.30.180 RCW 48.30.090 |
| P 12 | Failure to furnish required documents to existing company | WAC 284-23- 455(2)(b) |
| P 12 | Failure to furnish contract summary or ledger statements to certificate holders | WAC 284-23- 455(2)(c) |

APPENDIX I

-

AGENT LICENSING

AGENTS CONTRACTED THROUGH LMG

(Thirty-nine (39) policies written by producers who were not properly licensed or appointed)

No license/appointment:

Wells & Johnson Ins. SVCS Inc. (1 policy)

Morrison Insurance Agency (1 policy)

Wrote business prior to appointment:

Oregon Country Associates (12 policies)

Pacific Estate Consultants Inc. (5 policies)

Emerald Capital Preservation (10 policies)

Options & Solutions (5 policies)

Centauri Estate Group Inc. (3 policies)

IBS Product Services (1 policy)

Financial Tender Care LLC (1 policy)

APPENDIX II

-

1996 COMPLAINTS PERTAINING TO ANICO'S LMG POLICIES

Certificate Numbers:

LAR0000276, LAR0000283 (2 complaints)

LAR0000678, LAR0000679

LAR0005638

LAR0014984

LAR0028318

U0327968

(No policy issued- name Synstegard)

APPENDIX III

REPLACEMENTS

NON-LMG BUSINESS

Violation of WAC 284-23-440, WAC 284-23-455 and WAC 284-23-485, Washington Replacement Regulations:

Policy # UV 000-699

APPENDIX IV

| CERTIFICATE NUMBER | PROBLEM NOTED: |
|--------------------|--|
| LAR0008248 | Replacement of a life insurance policy by ANICO annuity. No mention that replacement would result in loss of \$75,000 death benefit. *1 |
| LAR0003492 | Replacement form refers to ANICO premium bonus as being a "cash" bonus which is incorrect. *1, 2 |
| LAR0002623 | Replacement form states that surrender charges on annuity being replaced will be "absorbed by bonus". Actually the bonus would not fully vest until the 21st policy year. *1 |
| LAR0001997 | Replacement form states that surrender charge on existing policy will be paid for by new company (ANICO). Form also states that ANICO's guaranteed interest rate is |

| | |
|------------|---|
| | 4% (actually 3%). Both statements are false. *1, 2 |
| LAR0006099 | This was an exchange from a life ins. policy to an ANICO annuity. Form failed to mention loss of death benefit. Also, many answers were marked out or changed without the initials of the applicant. *1, 3 |
| LAR0008312 | Replacement form states that existing annuity surrender charge would be "offset by bonus". Actually the surrender charge was \$2,579.68 whereas the ANICO bonus was only \$2,189.86. Also, the bonus wouldn't begin to vest until the 11th policy year. *1 |
| LAR0004654 | Questions 7(a) through 7(f) were unanswered. *3 |

| | |
|------------|--|
| LAR0010004 | Replacement form implies that the existing policy surrender charge will be offset by the ANICO bonus. The bonus doesn't fully vest for 19 years. *1 |
| LAR0005767 | There are two replacement forms in file. One dated 10-19-94 states that the existing policy surrender charge will be "offset by bonus". The other dated 11-7-94 did not contain answers to questions 3, 4, 5, 7(a) and 8. *1, 2, 3 |
| LAR0012226 | Replacement form states that new company (ANICO) pays surrender penalty plus client earns 6.150% first year. Actual first year interest rate 5.9%. Form was marked "void" and no other form was in file. |

| | |
|------------|---|
| | 2 |
| LAR0001059 | Replacement form refers to ANICO bonus as being a "cash bon *1, 2 |
| LAR0000495 | This was a replacement but no replacement form was in the file |
| LAR0009654 | Replacement form failed to explain surrender charges as required. *3 |
| LAR0001620 | Replacement involved life insurance but form failed to mention of death benefit. * 1 |
| LAR0027336 | Questions 3 and 7(a)- 7(f) were left unanswered. * 3 |
| LAR0013150 | Questions 7(a)- 7(f) were left unanswered. *3 |
| LAR0014900 | Replacement involved a life ins. policy but form failed to menti loss of death benefit. * 1 |
| LAR0013152 | Questions 7(a)-7(f) were either unanswered or the answers were out. * 3 |

Footnotes to Appendix IV

* 1- Violation of RCW 48.30.180 which prohibits any misrepresentations or misleading comparisons for the purpose of inducing or intending to induce any insured to surrender or otherwise terminate any insurance policy.

* 2- Violation of RCW 48.30.090 which prohibits any misrepresentation of the terms of any policy or the benefits or advantages premised thereby.

*3- Violation of WAC 284-23-440 which requires that a completed Notice Regarding Replacement be presented to the applicant not later than at the time of taking the application.

APPENDIX V

I Contract files containing no evidence that either a copy of the replacement notice, contract summary or ledger statement had been sent to the existing company.

(6 violations)

LAR 0000495

LAR0012226

LAR0027336

II Contract files containing no evidence that a contract summary or ledger statement had been sent to the existing company. (18 violations)

| | |
|------------|------------|
| LAR0004029 | LAR0008312 |
| LAR0005767 | LAR0006099 |
| LAR0009654 | LAR0001997 |
| LAR0025535 | LAR0002623 |
| LAR0013150 | LAR0003492 |
| LAR0014900 | LAR0008248 |
| LAR0010004 | LAR0010837 |
| LAR0004654 | LAR0013152 |
| LAR0009342 | LAR0001620 |

APPENDIX VI

ANICO annuity contracts which were replaced by those of another company:

LAR0013152 *

LAR0001997 *

LAR0004654

LAR0013156 *

LAR0004029 *

LAR0001059 *

LAR0020297 *

LAR0029211 *

LAR0018161

LAR0000168

* Replaced with annuities written in IL Annuity and Insurance Company.